

HENRY A. WAXMAN
TALKING POINTS
GENERAL SESSION ADDRESS
GROUP HEALTH INSTITUTE
JUNE 15, 1981

I. HMOs have proven themselves

A. You are delivering high quality, comprehensive care, which meets the needs of millions of people.

B. You are more efficient and less costly than fee-for-service system, primarily because HMOs have been quite successful in reducing hospitalization.

C. You are experiencing tremendous growth

1. Using generic definition of "HMO" -- the number of plans has increased from 39 in 1971 to over 240 currently; and enrollment has increased from approximately 3.5 million in 1971 to over 9 million today.

2. According to Interstudy, there were over 200 preoperational prepaid health plans as of February 1981.

3. As hospital costs climb at an annual rate of 19.9%, as they did in February, and health insurance premiums costs climb also, I expect that your enrollment will continue to grow.

D. From the perspective of many in the Congress, the most

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- D. From the perspective of many in the Congress, the most

important thing you are doing is competing with the fee-for-service system and traditional health insurance.

1. Your presence has forced many providers to change their old and comfortable ways, and to hold down costs in a variety of new ways.

II. Congress recognizes your success and the important role you are playing.

- A. HMO legislation has received bipartisan support in 1973 with the original Act, in 1976 and 1978 when amendments were passed, and again this year when my Subcommittee and the Energy and Commerce Committee unanimously reported amendments.
- B. I am generally pleased with the two HMO bills my Committee has passed. While federal funding support is reduced, in recognition of our budget constraints, the bills are very supportive of HMOs and contemplate aggressive new development and growth. I believe Congress wants you to expand and prosper.

III. Highlights of two bills

- A. HR 3398 -- reauthorizaion of HMO program administered by the office of HMOs.

1. Grant program

- a. As you know, grants are now awarded in a three-step process. The grants are for feasibility studies, then planning, and then initial development.
- b. My bill would phase out these grants by permitting current recipients to complete all three-steps during the next three fiscal years.
- c. I understand the Supplemental Appropriations Bill reduced significantly the FY 81 grant funds. Even so, my bill would provide authority to extend the phase out for three years.

2. Loan Programs

- a. Both loan programs would be continued by HR 3398
- b. Loans to cover operating costs during the first five years will be available with higher loan limits (up to \$7 million total and \$3 million in one year).
- c. Loans for ambulatory facilities would also continue to be available.
- d. I believe it is important for the federal government to continue this "banking function" making market rate loans available. While the private sector, and in particular insurance companies, have increased their investment in HMOs, I don't believe sufficient private financing will be available during the next few years.

3. Mental health and alcohol and drug abuse

- a. These services would not be mandated under the bill.
- b. However, if an employer requested that these services be offered, then the HMO would have to provide them.

4. Community Rating

- a. The community rating system is criticized as too rigid; as not permitting enough flexibility so that different premiums could be charged to different groups.
- b. While I am not convinced that community rating has deterred HMO growth, I believe that additional flexibility is warranted and will promote future growth.
- c. The bill will permit HMOs to charge different premium rates to different groups by using an actuarial rating option -- I call it community rating by class. The Committee's report provides a thorough explanation of this new option.

5. Dual choice

- a. HR 3398 expands the current "dual choice" provisions by requiring an employer to offer an additional HMO if the first is owned or controlled by an insurance company or a Blue Cross or Blue Shield plan which has a substantial share of the insurance market.

- b. This expansion of dual choice will assure that independent HMOs have access to employers and will prevent any anticompetitive situations from developing.

6. IPA Requirement

- a. Currently, as you know, if an HMO operates as an Individual Practice Association (IPA), the IPA must be separately incorporated. The bill would repeal this requirement.
- b. this requirement was viewed as unnecessary.

IV. Highlights of HR 3399 -- Medicare and Medicaid reimbursement to HMOs

A. I believe this bill contains probably the most important changes for HMOs

- 1. It will encourage Medicare beneficiaries and Medicaid recipients to join HMOs
- 2. It will require Medicare to pay HMOs on a prospective per capita basis.
- 3. In short, it will put the nation's biggest third party payer in the business of supporting your growth.

B. New Medicare reimbursement system

- 1. HMO is paid 95% of fee-for-service cost of Medicare beneficiary.
- 2. HMO keeps a part of the 95% equal to its "adjusted community rate" (ACR). The ACR is the community rate for non-Medicare enrollees adjusted for the

higher utilization expected of Medicare beneficiaries.

3. The difference between 95% and the ACR will be returned by the HMO to the beneficiary in the form of additional benefits.

C. This new Medicare payment system is currently being demonstrated in several HMOs. Two of them, Kaiser-Portland and the Fallon Health Plan, testified before my Subcommittee. I believe they have been very successful and bode well for HR 3399.

D. Medicaid

1. To encourage greater Medicaid participation, HR 3399 would expand the federal match for Medicaid costs for recipients in HMOs. A Medicaid recipient who enrolled in an HMO would be guaranteed Medicaid eligibility for at least six months.

V. Future Concerns

A. My primary concern about your future is the possibility of bankruptcies occurring without adequate protection of members and their employers.

1. I know all of you are also concerned about this matter.
2. The good reputation of HMOs and employers acceptance of them depend upon employers and members being protected against providers' claims in the event of bankruptcy.

3. I recognize that establishing an HMO and managing it in its early years is difficult and risky. For this reason it is important for you, as an industry, to address this problem immediately.

IV. In closing, let me say that GHAA plays a major role in the HMO industry and here in Washington.

- A. You are a growth industry and you can help insure that the integrity of your current plans is replicated in the future.
- B. You can attract and help train needed managerial talent,
- C. And you can help educate the public at large and employers about the advantages of HMOs.
- D. If you do your part, I believe you will always have friends in the Congress.